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MGT201 Financial Management

Final Term Examination – Spring 2005
Time Allowed: 150 Minutes

INSTRUCTIONS:

Please read the following instructions carefully before attempting any question:

- All questions are compulsory.
- This exam consists of **5** Multiple Choice Questions (MCQs) carrying 2 marks each, **5** Short questions carrying 5 marks each and **1** Descriptive questions carrying 15 marks.
- You are required to show all the working of short questions as well as descriptive question.
- This examination is closed book, closed notes, closed neighbors.
- Do not ask any questions about the contents of this examination from anyone.
- The use of calculator is allowed.
- The Use of Financial Tables is allowed.
- You may wish to pace yourself with your own watch, but the Supervisor will be the official timekeeper of the test.

Failure to comply with the Supervisor's directions will result in your test being cancelled. Please comply with supervisor's directions to avoid any unpleasant event.

Total Marks: 52 **Total Questions: 11**

Question No. 1	Marks : 02

If interest expenses for a firm rise, we know that firm has taken on more _______________.

- Financial Leverage
- Operating Leverage
- Fixed Assets
- None of the given options

Question No. 2	Marks : 05

What is meant by Budget Constraints?

Question No. 3	Marks : 05

What does IRR mean?

Question No. 4	Marks : 02

Capital ______________ is the term that means the size of the capital budget is constrained.

- Fractioning
- Rationing
- Budgeting
- Cost

Question No. 5	Marks : 05

What are the General Advantages of Leasing from Lessee's (Borrower / user) Point of View?

Question No. 6	Marks : 05

What is meant by the Capital Asset Pricing Model (CAPM)?

Question No. 7	Marks : 02

From the given options, select the optimal capital structure for a company:

- Debt = 40%; Equity = 60%; EPS = Rs.2.95; Stock price = Rs.26.50
- Debt = 50%; Equity = 50%; EPS = Rs.3.05; Stock price = Rs.28.90.
- Debt = 60%; Equity = 40%; EPS = Rs.3.18; Stock price = Rs.31.20.
- Debt = 80%; Equity = 20%; EPS = Rs.3.42; Stock price = Rs.30.40.

Question No. 8	Marks : 15

You have the following information about a company for a year:
Operating Revenue = Rs.100 per unit
Variable Costs = Rs.50 per unit

a. Calculate breakeven quantity for the company if fixed cost is Rs.500 and interpret the result.

b. What happens to the breakeven quantity if fixed cost of the company rises to Rs.600? Show the calculations and interpret the result.

c. What will be operating leverage of the firm when fixed cost is Rs.500 and when fixed cost is Rs.600 at the breakeven quantity calculated in part (a), show all the calculations involved? What conclusion can you draw about the relationship between operating leverage and breakeven quantity from your answers?

Question No. 9	Marks : 05

Why do Multinationals do business internationally?

Question No. 10	Marks : 02

A ___________ occurs when two firms in totally different industries combine.

- Conglomerate
- Co generic
- Horizontal
- Vertical

Question No. 11	Marks : 02

Worth of one currency in terms of another currency is called ___________.

- Euro
- Exchange Rate
- Spot Rate
- Forward Rate